

# **Oklahoma State University Research Foundation, Inc. (A Component Unit of Oklahoma State University)**

**Independent Auditor's Report and Financial Statements**

June 30, 2018 and 2017

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**Oklahoma State University Research Foundation, Inc.**  
**(A Component Unit of Oklahoma State University)**  
**June 30, 2018 and 2017**

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## Independent Auditor's Report

Board of Directors  
Oklahoma State University Research Foundation, Inc.  
Stillwater, Oklahoma

### Report on the Financial Statements

We have audited the accompanying financial statements of Oklahoma State University Research Foundation, Inc. (the "Foundation"), a component unit of Oklahoma State University, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the equity method investment, which represents \$2,501,778 and \$1,216,722 of total assets at June 30, 2018 and 2017, respectively, and equity income (losses) in investee of \$449,056 and \$(345,932) included in nonoperating revenue (expenses) as of June 30, 2018 and 2017, respectively. Those statements were audited by another auditor, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts of the equity method investment, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the equity method investment were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***Opinion***

In our opinion, based on our audits and the reports of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of Oklahoma State University Research Foundation, Inc. as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **OTHER MATTER**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2018, on our consideration of the Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

**BKD, LLP**

Springfield, Missouri  
October 30, 2018

**Oklahoma State University Research Foundation, Inc.**  
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**Management's Discussion and Analysis (Unaudited)**  
**Years Ended June 30, 2018 and 2017**

***Overview of Financial Statements and Financial Analysis***

Oklahoma State University Research Foundation, Inc. (OSURF or the "Foundation") proudly presents its financial statements for fiscal years 2018 and 2017 with comparative data presented for fiscal year 2016. The emphasis of discussions concerning these statements will be for the current year. There are three financial statements presented: the Statements of Net Position; the Statements of Revenues, Expenses and Changes in Net Position; and the Statements of Cash Flows. This discussion and analysis of OSURF provides an overview of its financial activities for the year.

***Statements of Net Position***

The Statements of Net Position present the assets (current and noncurrent), liabilities (current and noncurrent) and net position (assets minus liabilities) as of the end of the fiscal year. The purpose of the Statements of Net Position is to present to the readers of the financial statements a fiscal snapshot of OSURF. The difference between current and noncurrent assets is discussed in the footnotes to the financial statements.

From the data presented, readers of the Statements of Net Position are able to determine the assets available to continue the operations of the organization. They are also able to determine how much the organization owes vendors, investors and lending organizations. Finally, the Statements of Net Position provide a picture of the net position (assets minus liabilities) and their availability for expenditure by the organization.

Net position is divided into three major categories. The first category, net investment in capital assets, provides the organization's equity in property, plant and equipment owned by the organization. The next category is restricted net assets. Expendable restricted net position is available for expenditure by the organization, but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net position. Unrestricted assets are available for any lawful purpose of the organization. The chart on the following page is a summary of the Statements of Net Position over the last three years:

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	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Statements of Net Position</b>			
<b>Assets</b>			
Current assets	\$ 4,749,309	\$ 5,339,017	\$ 7,215,861
Capital assets, net of accumulated depreciation	<u>488,103</u>	<u>500,252</u>	<u>427,755</u>
Total assets	<u>5,237,412</u>	<u>5,839,269</u>	<u>7,643,616</u>
<b>Liabilities</b>			
Accounts payable	25,952	142,474	173,937
Due to Oklahoma State University	-	-	2,270,466
Deposits	2,222	2,222	2,222
Accrued compensated absences	<u>34,785</u>	<u>158,437</u>	<u>155,732</u>
Total liabilities	<u>62,959</u>	<u>303,133</u>	<u>2,602,357</u>
<b>Net Position</b>			
Net investment in capital assets	488,103	500,252	427,755
Restricted for			
Expendable			
Scholarships, research and instruction	(12,031)	1,217	1,248
Capital projects	-	-	4,932
Unrestricted	<u>4,698,381</u>	<u>5,034,667</u>	<u>4,607,324</u>
Total net position	<u>\$ 5,174,453</u>	<u>\$ 5,536,136</u>	<u>\$ 5,041,259</u>

In fiscal year 2018, total assets of the organization decreased by \$(601,857) or (10.31) percent over fiscal year 2017. A review of the Statements of Net Position will reveal that the decrease was due to a decrease in accounts receivable of \$(1,241,945) and capital assets, net of accumulated depreciation, of \$(12,149), offset by an increase in the net of cash and cash equivalents and investments of \$652,237.

In fiscal year 2017, total assets of the organization decreased by \$(1,804,347) or (23.61) percent over fiscal year 2016. A review of the Statements of Net Position will reveal that the decrease was due to a decrease in accounts receivable of \$(917,142), a decrease in the net of cash and cash equivalents and investments of \$(218,311), and the write off of interest receivable from OSU – University Multispectral Laboratories, L.L.C. (OSU-UML) of \$(741,391).

In fiscal year 2018, total liabilities for the year decreased by \$(240,174) or (79.23) percent. The decrease was due primarily to decreases in accounts payable of \$(116,522), and the decrease in accrued compensated absences of \$(123,652). The combination of the decreases in total assets and total liabilities nets to a decrease in total net position of \$(361,683) or (6.53) percent.

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In fiscal year 2017, total liabilities for the year decreased by \$(2,299,224) or (88.35) percent. The decrease was due primarily to decreases in amounts due to Oklahoma State University (OSU) of \$(2,270,466) and accounts payable of \$(31,463). These were offset by an increase in accrued compensated absences of \$2,705. The combination of the decreases in total assets and total liabilities nets to an increase in total net position of \$494,877 or 9.82 percent.

**Statements of Revenues, Expenses and Changes in Net Position**

While the 2017 and 2018 comparisons are important indicators of activity during the year under audit, it is also important to look at some of the operating and nonoperating categories over time. One of the important measures of an organization's fiscal stability is how operating revenues compare to operating expenses.

	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Operating Revenues</b>	\$ 5,809,711	\$ 10,301,707	\$ 9,207,340
<b>Operating Expenses</b>	<u>6,161,973</u>	<u>5,599,844</u>	<u>5,056,117</u>
<b>Operating Income (Loss)</b>	(352,262)	4,701,863	4,151,223
<b>Nonoperating Revenues (Expenses)</b>	<u>(10,421)</u>	<u>(4,292,318)</u>	<u>(6,922,627)</u>
Income (loss) before other revenues, expenses, gains and losses	(362,683)	409,545	(2,771,404)
Capital provided by affiliates	1,000	1,730	1,773,891
Other additions, net	<u>-</u>	<u>83,602</u>	<u>-</u>
<b>Increase (Decrease) in Net Position</b>	<u>\$ (361,683)</u>	<u>\$ 494,877</u>	<u>\$ (997,513)</u>

Operating revenues of \$5,809,711 in fiscal year 2018 decreased \$(4,491,996) or (43.60) percent when compared to fiscal year 2017 operating revenues of \$10,301,707. The decrease is due to the elimination of the service agreement between OSU and OSURF of \$(5,020,000) and a decrease in nongovernmental grants and contracts of \$(2,239). This was offset by increases in federal grants and contracts of \$516,905, auxiliary revenues of \$7,201 and other operating revenues of \$6,137.

Operating revenues of \$10,301,707 in fiscal year 2017 increased \$1,094,367 or 11.89 percent when compared to fiscal year 2016 operating revenues of \$9,207,340. The increase is due to increases in federal grants and contracts of \$658,062, nongovernmental grants and contracts of \$50,000 and the service agreement between OSU and OSURF of \$470,000. This was offset by decreases in auxiliary revenues of \$(67,396) and other operating revenues of \$(16,299).

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The following table summarizes the operating revenues of OSURF for the last three years:

	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Operating Revenues</b>			
Federal grants and contracts	\$ 5,417,240	\$ 4,900,335	\$ 4,242,273
Nongovernmental grants and contracts	47,761	50,000	-
Auxiliary revenue	300,777	293,576	360,972
Service agreement	-	5,020,000	4,550,000
Other operating revenues	43,933	37,796	54,095
	<u>\$ 5,809,711</u>	<u>\$ 10,301,707</u>	<u>\$ 9,207,340</u>

Operating expenses of \$6,161,973 in fiscal year 2018 increased \$562,129 or 10.04 percent when compared to fiscal year 2017 operating expenses of \$5,599,844. The increases came from increases in contractual services of \$82,515, utilities of \$5,924, other operating expenses of \$707,691 and depreciation expense of \$1,044. These were offset by decreases in compensation and employee benefits of \$(24,367), supplies and materials of \$(205,575) and communication of \$(5,103).

Operating expenses of \$5,599,844 in fiscal year 2017 increased \$543,727 or 10.75 percent when compared to fiscal year 2016 operating expenses of \$5,056,117. The increases came from increases in compensation and employee benefits of \$575,187, supplies and materials of \$46,525, communications of \$4,179 and depreciation expense of \$1,044. These were offset by decreases in contractual services of \$(20,634), utilities of \$(6,750) and other operating expenses of \$(55,825).

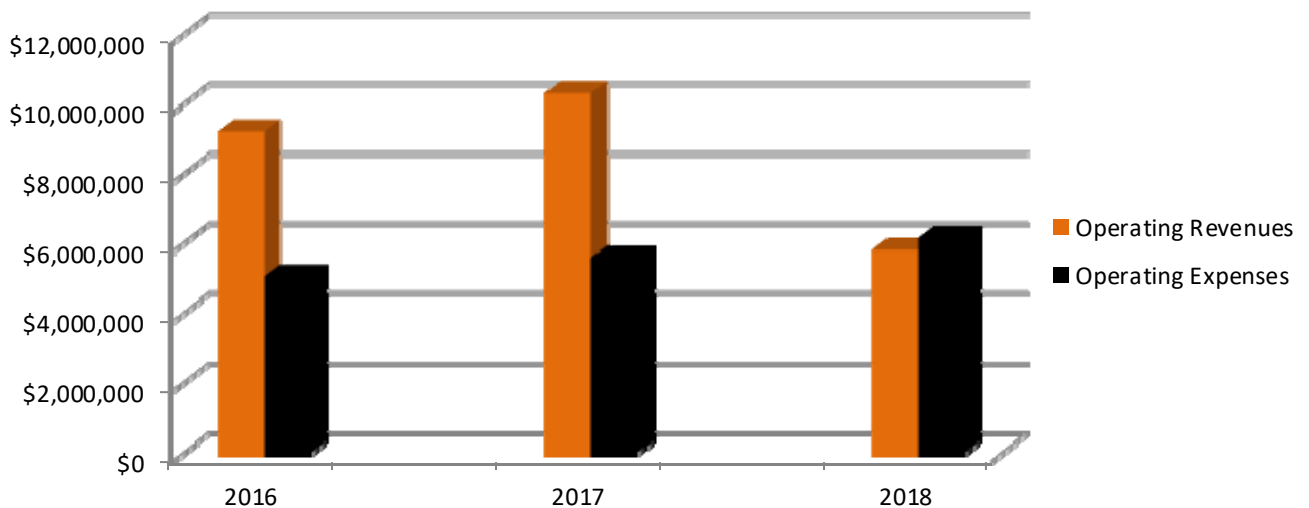
The following table summarizes the operating expenses of OSURF for the last three years:

	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Operating Expenses</b>			
Compensation and employee benefits	\$ 3,643,351	\$ 3,667,718	\$ 3,092,531
Contractual services	602,623	520,108	540,742
Supplies and materials	55,352	260,927	214,402
Utilities	50,292	44,368	51,118
Communication	9,235	14,338	10,159
Other operating expenses	1,788,971	1,081,280	1,137,105
Depreciation expense	12,149	11,105	10,060
	<u>\$ 6,161,973</u>	<u>\$ 5,599,844</u>	<u>\$ 5,056,117</u>



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It is important to understand the relationship of grants and contracts to the operating revenue and expenses of OSURF. Since fiscal year 2016, grant and contract revenue has accounted for 57.51 percent of the total operating revenue of OSURF. Many of the operating expenses are also a result of these externally- funded projects. When revenues from these agreements increase, it is logical to see a correlating increase in the operating expenses of OSURF. Since fiscal year 2016, OSURF has seen a 28.82 percent increase in their grants and contracts revenue and operating expenses have increased 21.87 percent during this same period. The primary reasons for the overall increase in operating expenses are increases in compensation and employee benefits of \$550,820, contractual services of \$61,881, other operating expenses of \$651,866 and depreciation expense of \$2,089. These were offset by decreases in communication of \$(924), supplies and materials of \$(159,050) and utilities of \$(826).



Nonoperating revenue/(expenses) of \$(10,421) in fiscal year 2018 changed when compared to fiscal year 2017 nonoperating revenues/(expenses) of \$(4,292,318). The majority of this decrease in expenses is due to the decrease in bad debts related to the OSU-UML loan receivable of \$3,949,533 which was reserved in fiscal year 2017. Additionally, investment income decreased by \$(462,624) while income in equity of an investee increased by \$794,988.

Nonoperating revenues/(expenses) of \$(4,292,318) in fiscal year 2017 changed \$2,630,309 when compared to fiscal year 2016 nonoperating revenues/(expenses) of \$(6,922,627). The majority of this decrease in expenses is due to a decrease in the reserve for bad debts related to the OSU-UML loan receivable of \$2,038,467. Additionally, investment income increased by \$213,983 and there was a decrease in loss in equity of an investee of \$377,859.

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The following table summarizes the nonoperating revenues and expenses for OSURF for the last three years:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>Nonoperating Revenues (Expenses)</b>			
Investment income	\$ 2,523	\$ 465,147	\$ 251,164
Equity (losses) of investee	449,056	(345,932)	(723,791)
Bad debt expense	<u>(462,000)</u>	<u>(4,411,533)</u>	<u>(6,450,000)</u>
 Total nonoperating revenues (expenses)	 <u>\$ (10,421)</u>	 <u>\$ (4,292,318)</u>	 <u>\$ (6,922,627)</u>

**Statements of Cash Flows**

The final statement presented by OSURF is the Statements of Cash Flows. The Statements of Cash Flows presents detailed information about the cash activity of the organization during the year. The statement is divided into four sections.

The first section deals with operating cash flows and shows the net cash provided by the operating activities of OSURF. The second section reflects the cash flows from investing activities and shows the purchases, proceeds and interest received from investing activities. The third section deals with the cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reconciles the net cash used to the operating income or loss reflected on the Statements of Revenues, Expenses and Changes in Net Position.

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>Cash Flows</b>			
Cash provided by (used in)			
Operating activities	\$ 661,658	\$ 3,330,886	\$ 1,483,695
Investing activities	(833,477)	1,949,424	(206,917)
Capital and related financial activities	<u>(461,000)</u>	<u>(3,348,270)</u>	<u>(1,776,109)</u>
 Net change in cash	 (632,819)	 1,932,040	 (499,331)
Cash and cash equivalents, beginning of year	<u>2,107,013</u>	<u>174,973</u>	<u>674,304</u>
 Cash and cash equivalents, end of year	 <u>\$ 1,474,194</u>	 <u>\$ 2,107,013</u>	 <u>\$ 174,973</u>

In fiscal year 2018 the cash and cash equivalents, end of year decreased by \$(632,819) or (30.03) percent which represents a difference in net increase/(decrease) in cash and cash equivalents from fiscal years 2017 to 2018 of \$2,564,859. The net decrease was generated by a decrease in net cash provided by operating activities of \$(2,669,228), a decrease in net cash used in investing activities of \$(2,782,901) and a decrease in net cash used by capital and related financing activities of \$(2,887,270).

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In fiscal year 2017 the cash and cash equivalents, end of year increased by \$1,932,040 or 1,104.19 percent which represents a difference in net increase/(decrease) in cash and cash equivalents from fiscal years 2016 to 2017 of \$2,431,371. The net increase was generated by an increase in net cash provided by operating activities of \$1,847,191, an increase in net cash provided by (used in) investing activities of \$2,156,341 (this is due to the closing out of the UBS investments and moving the funds to cash) and an increase in net cash used by capital and related financing activities of \$(1,572,161).


***Economic Outlook***

OSURF is an integral component unit of Oklahoma State University and is reported as a blended component unit in the Oklahoma State University financial statements. OSURF receives and administers funds from Federal, State and Private sources for the purpose of carrying out various educational, research and outreach programs of the University. In fiscal year 2018, OSURF experienced a 10.40 percent increase in the total grant and contract revenue from fiscal year 2017. There was also an increase of 10.04 percent in operating expenses. Overall OSURF experienced a decrease in net position of \$(361,683) for fiscal year 2018 decreasing the organization's total net position to \$5,174,453.

Ongoing trends in federal funding have limited the availability of directed appropriation to OSURF as well as slowed the organization's access to general federal awards for research and development. In response, OSURF has shifted much of its focus in recent years to technology transfer, business development, and economic development, in an effort to expand revenue-producing opportunities and to provide maximum benefit to the university. That said, specific federally-sponsored projects will continue to be a significant source of revenue for the organization. In fiscal year 2018, NASA projects generated the bulk of OSURF's federal grant revenue. OSURF's contract with NASA, awarded through the OSU College of Education, Health and Aviation, will continue to provide revenue streams to OSURF of approximately \$350,000 per annum through fiscal year 2022.

The organization's leadership continues to review and explore new opportunities that will provide the revenues needed to meet the mission of OSURF and to advance the research enterprise at Oklahoma State University. As the needs and opportunities evolve, OSURF is poised to adjust, often in ways that are more rapid or flexible than is feasible in traditional university setting, to maximize benefit to the University.

  
Kenneth Sewell  
President

  
Joe Weaver  
Secretary/Treasurer

**Oklahoma State University Research Foundation, Inc.**  
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**Statements of Net Position**  
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	<b>2018</b>	<b>2017</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,474,194	\$ 2,107,013
Accounts receivable, net	773,337	2,015,282
Investments	2,501,778	1,216,722
Total current assets	4,749,309	5,339,017
<b>Noncurrent Assets</b>		
Capital assets, net of accumulated depreciation	488,103	500,252
Total noncurrent assets	488,103	500,252
Total assets	\$ 5,237,412	\$ 5,839,269
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 25,952	\$ 142,474
Deposits	2,222	2,222
Accrued compensated absences	34,785	158,437
Total current liabilities	62,959	303,133
Total liabilities	62,959	303,133
<b>Net Position</b>		
Net investment in capital assets	488,103	500,252
Restricted for		
Expendable		
Scholarships, research, instruction and other	-	1,217
Unrestricted	4,686,350	5,034,667
Total net position	5,174,453	5,536,136
Total liabilities and net position	\$ 5,237,412	\$ 5,839,269

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	<b>2018</b>	<b>2017</b>
<b>Operating Revenues</b>		
Federal grants and contracts	\$ 5,417,240	\$ 4,900,335
Nongovernmental grants and contracts	47,761	50,000
Auxiliary revenue		
Mike Morgan Building	230,456	212,650
Eastgate Property	70,321	80,926
Service agreement	-	5,020,000
Other operating revenues	43,933	37,796
	<b>5,809,711</b>	<b>10,301,707</b>
<b>Operating Expenses</b>		
Compensation and employee benefits	3,643,351	3,667,718
Contractual services	602,623	520,108
Supplies and materials	55,352	260,927
Utilities	50,292	44,368
Communications	9,235	14,338
Other operating expenses	1,788,971	1,081,280
Depreciation expense	12,149	11,105
	<b>6,161,973</b>	<b>5,599,844</b>
	<b>(352,262)</b>	<b>4,701,863</b>
<b>Nonoperating Revenues (Expenses)</b>		
Investment income	2,523	465,147
Equity (losses) of investee	449,056	(345,932)
Bad debt expense	(462,000)	(4,411,533)
	<b>(10,421)</b>	<b>(4,292,318)</b>
Income (loss) before other revenues, expenses, gains and losses	(362,683)	409,545
Capital provided by affiliates	1,000	1,730
Other additions, net	-	83,602
	<b>(361,683)</b>	<b>494,877</b>
<b>Increase (Decrease) in Net Position</b>	<b>(361,683)</b>	<b>494,877</b>
<b>Net Position, Beginning of Year</b>	<b>5,536,136</b>	<b>5,041,259</b>
<b>Net Position, End of Year</b>	<b>\$ 5,174,453</b>	<b>\$ 5,536,136</b>

**Oklahoma State University Research Foundation, Inc.**  
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**Statements of Cash Flows**  
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	<b>2018</b>	<b>2017</b>
<b>Cash Flows from Operating Activities</b>		
Grants and contracts	\$ 5,856,945	\$ 4,667,477
Other operating receipts	1,194,710	6,551,372
Payments to OSU employees for salaries and benefits	(3,798,396)	(3,655,148)
Payments to suppliers	(2,591,601)	(4,232,815)
Net cash provided by operating activities	661,658	3,330,886
<b>Cash Flows from Investing Activities</b>		
Investment in equity investee	(836,000)	(803,214)
Proceeds from sales of investments	-	2,750,342
Investment losses	2,523	2,296
Net cash provided by (used in) investing activities	(833,477)	1,949,424
<b>Cash Flows from Capital and Related Financing Activities</b>		
Issuances of loan receivable	-	(706,000)
Advances to affiliates	(462,000)	(2,644,000)
Capital provided by affiliates	1,000	1,730
Net cash used in financing activities	(461,000)	(3,348,270)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(632,819)	1,932,040
<b>Cash and Cash Equivalents, Beginning of Year</b>	2,107,013	174,973
<b>Cash and Cash Equivalents, End of Year</b>	\$ 1,474,194	\$ 2,107,013
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>		
Operating income (loss)	\$ (352,262)	\$ 4,701,863
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation expense	12,149	11,105
Changes in assets and liabilities		
Accounts receivable	1,241,945	917,142
Accounts payable	(116,522)	(31,463)
Due to Oklahoma State University	-	(2,270,466)
Compensated absences	(123,652)	2,705
Net cash provided by operating activities	\$ 661,658	\$ 3,330,886
<b>Noncash Financing Activities</b>		
Loans receivable deemed uncollectible	\$ 462,000	\$ 4,411,533
<b>Noncash Investing Activities</b>		
Equity losses (income) on investee	\$ (449,056)	\$ 345,932

**Oklahoma State University Research Foundation, Inc.**  
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**Notes to Financial Statements**  
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**Note 1: Summary of Significant Accounting Policies**

***Nature of Operations***

The Oklahoma State University Research Foundation, Inc. (OSURF or the “Foundation”), formerly Oklahoma State University Center for Innovation and Economic Development, Inc. through June 18, 2015, is a nonprofit corporation founded in 1967, established to engage in research, extension and academic contractual arrangements for the benefit and advancement of Oklahoma State University (the “University”). OSURF receives and administers funds from federal and state organizations and from private sources for the purpose of carrying out the educational, research and economic development programs of the University.

***Basis of Accounting and Presentation***

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, 61 and 80, consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. Accordingly, the financial statements include the accounts of OSURF, as the primary government, and the accounts of OSU-Enterprise Center, LLC (OSU EC), collectively referred to as “OSURF.” OSU EC is an Oklahoma not-for-profit corporation which was formed on June 12, 2006, exclusively to support the activities, affairs and programs of OSURF. Accordingly, OSU EC has been reported as a blended component unit in the financial statements.

OSURF is governed by a board of directors comprised primarily of management of the University. In addition, University employees and facilities are used for virtually all activities of OSURF. Accordingly, OSURF is a component unit of the University and is included in the financial statements of the University. The accompanying financial statements of OSURF have been prepared in accordance with U.S. generally accepted accounting principles prescribed by GASB.

As a member of the Oklahoma State System of Higher Education, the University (which includes OSURF) presents its financial statements in accordance with requirements of GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities*.

A statement of net position provides information about the assets, liabilities and net position of OSURF at the end of the year. Assets and liabilities are classified as current, noncurrent or other assets. Net position is classified according to availability of assets to satisfy OSURF’s obligations. Net investments in capital assets represent the value of capital assets, net of accumulated depreciation, less any outstanding debt incurred to acquire or construct the assets. Restricted net position, if any, represents resources that have been externally restricted for specific purposes. Unrestricted net position includes all other assets, including those that have been designated by management to be used for other than general operating purposes.

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A statement of revenues, expenses and changes in net position provides information about OSURF's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net position are reported. Operating revenues and expenses generally result from providing services in connection with OSURF's principal ongoing operations. Accordingly, revenue such as pass-thru grants is considered to be operating revenues. Other revenue, such as investment income, is considered to be nonoperating revenues. Operating expenses include compensation and employee benefit contractual services and supplies.

A statement of cash flows provides information about OSURF's sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as either operating, capital financing or investing activities.

***Basis of Accounting***

For financial reporting purposes, OSURF is considered a special-purpose government entity engaged only in business-type activities. Accordingly, OSURF's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

***Cash Equivalents***

OSURF considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At June 30, 2018, cash equivalents consisted primarily of deposits held by the University.

***Investments and Investment Income***

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

OSURF accounts for its investment in Cowboy Technologies, LLC, a wholly owned entity as an equity method investment and allocation of losses or income are reported as equity in income (loss) of investees in the statements of revenues, expenses and changes in net position.

***Accounts Receivable***

Accounts receivable consist of amounts due from the federal government, state and local governments or private sources in connection with reimbursement of allowable expenditures made pursuant to OSURF's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.



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***Capital Assets***

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, OSURF's capitalization policy includes all items with a unit cost of \$5,000 or more, and an estimated useful life of greater than one year. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings and 5 to 7 years for equipment.

Costs incurred during construction of long-lived assets are recorded as construction in progress and are not depreciated until placed in service. OSURF capitalizes interest as a component of capital assets constructed for its own use. In 2018 and 2017, there was no interest incurred for capital projects.

***Compensated Absences***

The liability and expense incurred for employee vacation pay are recorded as accrued compensation absences in the statements of net position, and as a component of compensation and benefit expense in the statements of revenues, expenses and changes in net position.

***Net Position***

Net position of OSURF is classified in three components as follows:

- *Net investment in capital assets:* This represents OSURF's total investment in capital assets, net of outstanding debt obligations and depreciation related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.
- *Restricted net position - expendable:* Restricted expendable net position includes resources in which OSURF is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.
- *Unrestricted net position:* Unrestricted net position represents resources derived from the recovery of facilities and administrative costs and services of auxiliary operations. These resources are used for transactions relating to the educational and general operations of OSURF, and may be used at the discretion of the governing board to meet current expenses for any purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, OSURF's policy is to use prudent decision processes to determine which resources will be applied based on availability of funding, donor intent and returns available from idle funds.

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***Income Taxes***

OSURF is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code for activities which relate to its exempt purpose. There were no unrelated business income taxes incurred in either 2018 or 2017. OSURF believes that it has appropriate support for any tax positions taken, and as such does not have any uncertain tax positions that are material to the financial statements. Generally, OSURF is no longer subject to income tax examination by federal, state or local tax authorities for years prior to fiscal year ended in 2015.

***Classification of Revenues***

OSURF has classified its revenues as either operating or nonoperating according to the following criteria:

- *Operating revenues:* Operating revenues include activities that have the characteristics of exchange transactions, such as sales and services of auxiliary enterprises and most federal, state and local grants and contracts.
- *Nonoperating revenues:* Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB Statement No. 34, such as investment income.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

***New Accounting Pronouncements***

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. This Statement is effective for periods beginning after June 15, 2018. Earlier application is encouraged.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on whether a government is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists. This Statement is effective for periods beginning after December 15, 2018. Earlier application is encouraged.

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In June 2017, GASB issued Statement No. 87, *Leases*. This Statement requires recognition of certain lease assets and liabilities that previously were classified as operating leases and recognized as inflows of resources or outflows of resources. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement is effective for periods beginning after December 15, 2019. Earlier application is encouraged.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This Statement improves disclosures related to debt, including direct borrowings and direct placements and also clarifies which liabilities governments should include when disclosing information related to debt. This Statement is effective for periods beginning after June 15, 2018. Earlier application is encouraged.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This Statement enhances the relevance and comparability of capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. This Statement is effective for periods beginning after December 15, 2019. Earlier application is encouraged.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests*. This Statement aims to provide consistency in the reporting of majority equity interests and improve the relevance of information related to certain component units. This Statement is effective for periods beginning after December 15, 2018. Earlier application is encouraged.

Management has not yet determined the effect, if any, of adoption of the new GASB statements for the financial statements.

**Reclassifications**

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 financial statement presentation. These reclassifications had no effect on the changes in financial position.

**Note 2: Cash and Cash Equivalents and Investments**

**Cash and Cash Equivalents**

At June 30, 2018 and 2017, the carrying amount of OSURF's cash and cash equivalents was \$1,474,194 and \$2,107,013, respectively. These amounts consisted of deposits with the University of \$1,296,663 and \$1,931,202 at June 30, 2018 and 2017, respectively, and U.S. financial institutions of \$177,531 and \$175,811 at June 30, 2018 and 2017, respectively.

The State Treasurer requires that all state funds are either insured by the Federal Deposit Insurance Corporation (FDIC), collateralized by securities held by the cognizant Federal Reserve Bank or invested in U.S. government obligations. OSURF's deposits with the University are deposited with

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the State Treasurer and are pooled with funds of other state agencies, and then in accordance with statutory limitations, placed in financial institutions or invested as the State Treasurer may determine, in the State's name.

OSURF requires that balances on deposit with financial institutions be insured by the FDIC or collateralized by securities held by the cognizant Federal Reserve Bank, in OSURF's name.

**Investments**

At June 30, 2018 and 2017, the only investment held was an equity investment in Cowboy Technologies, L.L.C., which is not subject to maturity dates. At June 30, 2018 and 2017, the fair value of this investment was \$2,501,778 and \$1,216,722, respectively.

**Note 3: Accounts Receivable**

Accounts receivable consisted of the following at June 30:

	<b>2018</b>	<b>2017</b>
Federal, state and private grants and contracts	\$ 773,337	\$ 1,165,282
Service agreement with the University	-	850,000
	\$ 773,337	\$ 2,015,282

**Note 4: Loan Receivable**

Loan receivable consists of advances made to OSU – University Multispectral Laboratories, L.L.C. (OSU-UML) to fund operations and satisfy outstanding obligations. The loan is uncollateralized and payable on demand. During 2018 and 2017, the loan receivable balance was deemed uncollectible and fully reserved for a net balance of zero in both years. As of June 30, 2017, the entire balance of accrued interest of \$1,061,533 was determined to be uncollectible and an allowance was recorded to reduce the interest receivable to zero. There was no additional accrued interest earned in 2018.

Following is a summary of the receivable at June 30:

	<b>2018</b>	<b>2017</b>
Outstanding advances	\$ 10,262,000	\$ 9,800,000
Allowance for loan losses	(10,262,000)	(9,800,000)
	\$ -	\$ -

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**Note 5: Capital Assets**

Capital assets activity for the years ended June 30, 2018 and 2017, includes the following:

	Beginning Balance	2018		Ending Balance
		Additions	Retirements	
Capital assets not being depreciated				
Land	\$ 112,923	\$ -	\$ -	\$ 112,923
Total capital assets not being depreciated	<u>112,923</u>	<u>-</u>	<u>-</u>	<u>112,923</u>
Other capital assets				
Buildings	475,128	-	-	475,128
Furniture, fixtures and equipment	<u>428,598</u>	<u>-</u>	<u>-</u>	<u>428,598</u>
Total other capital assets	<u>903,726</u>	<u>-</u>	<u>-</u>	<u>903,726</u>
Less accumulated depreciation for				
Buildings	(102,328)	(12,149)	-	(114,477)
Furniture, fixtures and equipment	<u>(414,069)</u>	<u>-</u>	<u>-</u>	<u>(414,069)</u>
Total accumulated depreciation	<u>(516,397)</u>	<u>(12,149)</u>	<u>-</u>	<u>(528,546)</u>
Other capital assets, net	<u>387,329</u>	<u>(12,149)</u>	<u>-</u>	<u>375,180</u>
Capital asset summary				
Capital assets not being depreciated	112,923	-	-	112,923
Other capital assets, at cost	<u>903,726</u>	<u>-</u>	<u>-</u>	<u>903,726</u>
Total cost of capital assets	1,016,649	-	-	1,016,649
Less accumulated depreciation	<u>(516,397)</u>	<u>(12,149)</u>	<u>-</u>	<u>(528,546)</u>
Capital assets, net	<u>\$ 500,252</u>	<u>\$ (12,149)</u>	<u>\$ -</u>	<u>\$ 488,103</u>

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	Beginning Balance	2017			Ending Balance
		Additions	Retirements	Transfers	
Capital assets not being depreciated					
Land	\$ 112,923	\$ -	\$ -	\$ -	\$ 112,923
Total capital assets not being depreciated	112,923	-	-	-	112,923
Other capital assets					
Buildings	391,526	83,602	-	-	475,128
Furniture, fixtures and equipment	428,598	-	-	-	428,598
Total other capital assets	820,124	83,602	-	-	903,726
Less accumulated depreciation for					
Buildings	(91,223)	(11,105)	-	-	(102,328)
Furniture, fixtures and equipment	(414,069)	-	-	-	(414,069)
Total accumulated depreciation	(505,292)	(11,105)	-	-	(516,397)
Other capital assets, net	314,832	72,497	-	-	387,329
Capital asset summary					
Capital assets not being depreciated	112,923	-	-	-	112,923
Other capital assets, at costs	820,124	83,602	-	-	903,726
Total cost of capital assets	933,047	83,602	-	-	1,016,649
Less accumulated depreciation	(505,292)	(11,105)	-	-	(516,397)
Capital assets, net	\$ 427,755	\$ 72,497	\$ -	\$ -	\$ 500,252

**Note 6: Risk Management**

Due to the diverse risk exposure of the University and its constituent agencies including OSURF, the insurance portfolio contains a comprehensive variety of coverage. Oklahoma Statutes require participation of all State agencies in basic tort, educator's legal liability, property and casualty programs and fidelity bonding provided by the Risk Management Division of the Office of Management and Enterprise Services (the "SRMD"). In addition to these basic policies, the University's Department of Risk and Property Management establishes enterprise risk management guidelines for risk assessment, risk avoidance, risk acceptance and risk transfer.

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The University and individual employees are provided sovereign immunity when performing official business within the scope of their employment under the Oklahoma Governmental Tort Claims Act. For risks not protected by sovereign immunity, it is the internal policy of the University's Risk and Property Management department to accept initial risk in the form of retention or deductibles only to the extent that funds are available from the University's general operations to maintain this risk.

Beyond acceptable retention levels, risk transfer is practiced by purchasing conventional insurance coverage through an insurance broker or through the SRMD. These coverages are outlined as follows:

- The buildings and contents are insured for replacement value. Each loss incident is subject to a \$500,000 deductible.
- Out-of-state and out-of-country comprehensive general liability, educator's legal liability including employment practices, auto liability, aircraft liability, watercraft liability, leased vehicles, equipment and fidelity bonds are acquired by the University from the SRMD. To complement coverage provided by State Statute and to meet specific coverage requirements for special grants and/or contracts, additional coverage is purchased based on specific departmental and institutional needs and risks, but the related risks are not considered material to the University as a whole. Claim settlements have not exceeded insurance coverage in each of the past three fiscal years.

***Self-Funded Programs***

The University's life insurance program for the University and its constituent agencies including OSURF, was self-funded through December 31, 2003. Effective January 1, 2004, life waivers for disabled employees and their dependents were all that remained in the self-funded plan. Reserves were established at the onset of disability to pay the claims. Effective January 1, 2004, the University's life coverage is handled through an insured plan.

Through June 30, 1999, the University's health care programs were also self-funded. Effective July 1, 1999, the University terminated its self-insurance program, and participated in the State self-insurance program through December 31, 2007. Effective January 1, 2008, the University began participation in an insured program with BlueCross BlueShield of Oklahoma as the provider. The University believes that there is no exposure to pay run-off claims for the previous self-insured program at June 30, 2014. Beginning January 1, 2015, the University's health care program continued as a self-funded program. BlueCross BlueShield is the third-party administrator. The University has employed Lockton Company as a consultant to assist with premium setting, development of plan features, reserve funding and use of third party stop loss coverage insurance.

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The University's workers' compensation program is self-funded and is administered by a third party. The University maintains a cash deposit with the administrator and reimburses the administrator for claims paid and administrative expenses on a monthly basis. Benefits provided are prescribed by state law and include lump-sum payments for rated disabilities, in addition to medical expenses and a portion of salary loss resulting from a job-related injury or illness. The University records a liability for workers' compensation in its financial statements based on annual actuarial valuations.

The University's unemployment compensation insurance program is also self-funded. Unemployment benefits that separated employees receive are determined by Oklahoma Statutes and are administered by the Oklahoma Employment Security Commission (OESC). As a reimbursing employer, the University is billed quarterly by the OESC for benefits paid to former employees. The Board of Regents for the Oklahoma Agricultural and Mechanical Colleges requires that the University maintain a minimum of \$700,000 in reserve to cover claims. This minimum cash balance is considered each year during the rate-setting process.

**Note 7: Related Party Transactions**

A summary of related party transactions during the years ended June 30, 2018 and 2017, including a description of the relationship and operations are as follows:

***Oklahoma State University***

*Nature of Relationship* - OSURF engages in research, extension and academic contractual arrangements for the benefit and advancement of the University. OSURF receives and administers funds from federal and state organizations and from private sources for the purpose of carrying out certain education and research programs of the University.

*Description of Operations* - OSURF administers contracts with the National Aeronautics and Space (NASA) Administration and the U.S. Department of Defense, among others. The University incurs certain overhead related expenditures on behalf of OSURF in the administration of the contracts. In return, OSURF allocates to the University colleges approximately 40 percent of the facilities and administrative costs recovered under these contracts. The amounts allocated during the years ended June 30, 2018 and 2017 totaled \$379,091 and \$322,602, respectively, which are shown as a reduction to federal grants and contracts revenue.

OSURF entered into an agreement for services with the University in fiscal year 2016 to coordinate and manage certain programs related to research for the benefit of the University. The research functions include the stewardship and management of University generated intellectual property owned by the Board of Regents for the Oklahoma Agricultural and Mechanical Colleges for the benefit of the University. Through the Technology Development Center, OSURF shall provide guidance to research faculty regarding the protection of inventions and patent applications. OSURF shall market protected technologies for licensing and manage subsequent royalties. OSURF shall handle the commercialization of University intellectual property through start-up companies. OSURF shall provide administrative oversight of the OSU-University Multispectral Laboratories. At June 30, 2017, under the terms of the agreement, the University shall pay OSURF



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an amount not to exceed \$5,020,000. The agreement was not extended for 2018. As of June 30, 2018 and 2017, \$0 and \$850,000, respectively, was a receivable from the University. OSURF earned rent from OSU in the amount of \$96,624 and \$118,800 in fiscal year 2018 and 2017, respectively, for space leased in the Mike Morgan Building.

***Cowboy Technologies, L.L.C.***

*Nature of Relationship* – OSURF is the sole member of Cowboy Technologies L.L.C. (CT), an Oklahoma for-profit limited liability company that engages in the development, marketing and commercialization of intellectual property. CT is taxed as a corporation and its financials are not reflected on OSURF or the University’s financial statements.

*Description of Operations* – CT is an investment interest of OSURF. Though directed by the OSURF Board, CT’s day-to-day operations and fiscal decisions are under direction of a separate executive officer reporting to the OSURF Board. The OSURF Board has exclusive and complete authority and discretion to manage the operations and affairs of CT and to make any and all decisions regarding the business of CT. During the years ended June 30, 2018 and 2017, OSURF made investments in CT of \$836,000 and \$803,214, respectively. At June 30, 2018 and 2017, OSURF’s investment in CT is valued at \$2,501,778 and \$1,216,722, respectively.

***OSU – University Multispectral Laboratories, L.L.C.***

*Nature of Relationship* – OSU-UML is a nonprofit limited liability company founded for the purposes of research, development, testing, evaluation, validation and verification of sensors and other technologies in support of the global war on terrorism, homeland security and other related national security requirements for the benefit of the University.

*Description of Operations* – OSU-UML receives and administers funds from federal and state organizations and from private sources for the purpose of carrying out certain research programs of the University. In December 2012, OSURF loaned funds in the amount of \$5,000,000 to OSU-UML to fund operations and satisfy outstanding obligations. The loan is uncollateralized and payable on demand. The interest rate is 4 percent plus “30-day LIBOR” on the outstanding principal balance and is accrued monthly. In fiscal year 2014, an allowance for loan losses related to this loan of \$3,100,000 was recorded due to a legal settlement which reduced available funds. In fiscal year 2018 and 2017, OSURF loaned additional funds in the amount of \$0 and \$706,000, respectively, to OSU-UML. In fiscal year 2018 and 2017, an additional allowance of \$0 and \$706,000 was recorded, respectively. In fiscal year 2018 and 2017, OSURF made advances to OSU-UML in the amount of \$462,000 and \$2,644,000, respectively, for which an allowance for the total of the advances was also recorded (refer to *Note 4*). At June 30, 2018, and 2017, accrued interest of \$0 and \$1,061,533, respectively, was also deemed unlikely to collect and an allowance was recorded. OSURF earned rent from OSU-UML in the amount of \$7,200 and \$7,200 in fiscal year 2018 and 2017, respectively, for space leased in the Mike Morgan Building.

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***OSU - Technology Development Center***

*Nature of Relationship* – The Technology Development Center (TDC) at Oklahoma State University was created to foster the creation of innovative technologies and to manage those technologies and other intellectual property for the benefit of the University and the public. TDC has been restructured to report to OSURF.

*Description of Operations* – The TDC assists faculty and staff, administrators and students with intellectual property issues resulting from their scholarly and creative activities. OSURF earned lease revenue from TDC through office lease agreements in the amount of \$45,053 and \$51,720 in fiscal years 2018 and 2017, respectively.

**Note 8: Commitments and Contingent Liabilities**

OSURF participates in certain federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Management believes OSURF has complied with grant requirements and that disallowances, if any, will not be material.

**Note 9: Auxiliary Revenue**

OSURF entered into a Management and Fiscal Agent Agreement with the University for the fiscal and operational management of the property and grounds of the OSU Research Park effective July 1, 2014. In exchange for providing management services, OSURF occupies its office space at no charge. OSURF has sole authority to operate the grounds and facilities and enter into lease agreements required to perform its management duties. OSURF retains lease revenues and operates the facility as an at-risk manager. OSURF earned rent income in the amount of \$230,456 and \$212,650 for the Mike Morgan Building during fiscal year 2018 and 2017, respectively.

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**Note 10: Natural Classifications with Functional Classifications**

OSURF's operating expenses by functional classification were as follows for the years ended June 30:

Year Ended June 30, 2018								
Natural Classification								
Functional Classification	Compensation and Employee Benefits	Contractual Services	Supplies and Materials	Utilities	Communications	Other Operating Expenses	Depreciation Expense	Total
Instruction	\$ 3,450,622	\$ 252,755	\$ 47,710	\$ -	\$ 5,475	\$ 1,135,599	\$ -	\$ 4,892,161
Research	-	47,762	-	-	-	-	-	47,762
Academic support	192,729	74,716	7,642	-	1,576	650,842	-	927,505
Auxiliary enterprises	-	227,390	-	50,292	2,184	2,530	-	282,396
Depreciation	-	-	-	-	-	-	12,149	12,149
Total expenses	<u>\$ 3,643,351</u>	<u>\$ 602,623</u>	<u>\$ 55,352</u>	<u>\$ 50,292</u>	<u>\$ 9,235</u>	<u>\$ 1,788,971</u>	<u>\$ 12,149</u>	<u>\$ 6,161,973</u>

Year Ended June 30, 2017								
Natural Classification								
Functional Classification	Compensation and Employee Benefits	Contractual Services	Supplies and Materials	Utilities	Communications	Other Operating Expenses	Depreciation Expense	Total
Instruction	\$ 2,652,197	\$ 194,471	\$ 223,783	\$ -	\$ 6,763	\$ 691,865	\$ -	\$ 3,769,079
Research	229,599	37,275	10,885	-	-	99,165	-	376,924
Academic support	784,445	98,302	25,127	72	5,310	286,962	-	1,200,218
Auxiliary enterprises	1,477	190,060	1,132	44,296	2,265	3,288	-	242,518
Depreciation	-	-	-	-	-	-	11,105	11,105
Total expenses	<u>\$ 3,667,718</u>	<u>\$ 520,108</u>	<u>\$ 260,927</u>	<u>\$ 44,368</u>	<u>\$ 14,338</u>	<u>\$ 1,081,280</u>	<u>\$ 11,105</u>	<u>\$ 5,599,844</u>

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**Note 11: Management Plan**

OSURF revenues have relied primarily upon sponsored activities from federal grants, contracts and cooperative agreements. The number and size of these agreements have declined in recent years. Though OSURF has made proportional adjustments to operating expenses and carries no long-term debt, the downturn of federal program revenue streams has caused reductions in revenues over the past few years. Management continues to seek sponsored program opportunities. OSURF entered into an agreement to manage properties within the OSU Research Park in fiscal year 2015 and is continuing to focus on commercialization endeavors. As OSURF transitions to become a contributor to the University's sponsored research opportunities, steps are being taken to become qualified to receive government contracts.

**Note 12: Subsequent Events**

OSURF has evaluated events or transactions that occurred subsequent to June 30, 2018, through October 30, 2018, the date these financial statements were available to be issued, for potential recognition or disclosure in these financial statements.

**Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards**

**Independent Auditor's Report**

Board of Directors  
Oklahoma State University Research Foundation, Inc.  
Stillwater, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Oklahoma State University Research Foundation, Inc. (OSURF), which comprise the statement of financial position as of June 30, 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 30, 2018. Our report includes a reference to another auditor who audited the equity method investment, as described in our report on OSURF's financial statements. The financial statements of the equity method investment, which is included in OSURF's financial statements, were not audited in accordance with *Government Auditing Standards*.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered OSURF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OSURF's internal control. Accordingly, we do not express an opinion on the effectiveness of OSURF's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors  
Oklahoma State University Research Foundation, Inc.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether OSURF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**BKD, LLP**

Springfield, Missouri  
October 30, 2018

**Oklahoma State University Research Foundation, Inc.**  
**(A Component Unit of Oklahoma State University)**  
**Schedule of Findings and Responses**  
**Year Ended June 30, 2018**

**Reference  
Number**

**Finding**

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No matters are reportable.